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AN ELECTION REFLECTION

by Felix Morley

Amid the general and justified anathema which has overwhelmed the institution of polling public opinion, one exception should be noted. It is the stock market. This foretells no outcome and offers no assurances. But there is good reason to think that it accurately portrays the political anticipations of a large cross section of the nation at any given moment.

In at least two important respects the stock market poll differs from, and is vastly superior to, the sampling procedures which so misled the journalistic profession just prior to November 2. The factor of wishful thinking is reduced to a minimum. And those who "play" the market also place definite stakes on their individual expectations.

Investors do not divide into bulls and bears on the basis of campaign promises. They do not buy or sell a particular stock -- or at least not habitually -- because of a pretty prospectus or an inherited predilection. Like all markets, those which trade in the ownership of corporations are cold-blooded. For that very reason they tend to represent accurately the considered judgment of the business community at any given moment.

Over the long years men have learned how to devise instruments of marvelous sensitivity, for the measurement of the forces of external nature. The seismograph tells the intensity of an earthquake so distant as to be perceptible only by the wavering of this needle. The barometer warns of an approaching storm while the sky above still gives every prospect of fair weather.

Political earthquakes and storms will never be measured or foretold with equivalent accuracy. They are too much affected by personal hopes and fears. To a large extent people will always believe what they want to believe, scientific evidence to the contrary notwithstanding. Probably, that is all to the good. We must conclude that life would be far less interesting without the element of chance.

But, on every day when trading operates, the stock market does provide an index as to what investors think of the state of the commercial atmosphere. The market judgments are a composite of a vast number of individual and generally shrewd opinions. They are not altogether reliable, but they are emotionally disinterested and for that reason worthy of intellectual respect.

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The debacle of public opinion polls therefore tends to emphasize the relative reliability, and the potential political importance, of the poll of speculative buying and selling which the stock market takes automatically and daily.

II

Our suggestion here is that the stock market, viewed as a continuous public opinion poll, may have a far greater political significance than has as yet been attributed to it. At least, in this period of revulsion from polls in general, the point is worth considering. One does not need to be a Marxist to recognize a continuous interaction between economics and politics.

If we trace the Dow-Jones Averages back to the period of this year's Nominating Conventions, certain interesting data are immediately presented. The week of the GOP Convention, ending June 25, revealed an inert market, declining rather sharply with the nomination of Governor Dewey, then climbing slowly during the two-week interim before the Democratic leadership gathered in Philadelphia.

The course of the market during the week of the Democratic Convention is, in retrospect, equally thought-provoking. This period, culminating in the renomination of President Truman after a bitter internecine fight, witnessed an extremely sharp decline. The loss in values was as sudden, and nearly as substantial, as that of the three days following Mr. Truman's election last week.

We notice next that the nomination of Henry Wallace, immediately following that of Mr. Truman, produced no adverse stock market reaction. There was an equally placid response to the formal launching of the States' Rights Party, with Governor Thurmond as its nominee. But at the end of July there was another sharp shakedown of the averages, followed by a third in early August.

Of course there is nothing politically conclusive either in the market fluctuations while the candidates were being named, or in those which have followed down to the present. But there is certainly something suggestive. And it is reasonable to apply some retrospective reflection, remembering always that nothing is easier than to prove anything desired from the record of history.

III

The nomination of Mr. Dewey as the Republican candidate obviously aroused no investor enthusiasm. There was no demonstrated inclination to bet on a brighter business future when the well-oiled machine of the

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New York Governor steam-rollered the GOP. In other words, investors were from the very outset apathetic about the Dewey campaign. They did not seem to rate his chances high.

On the other hand, sharp fears swept the cross section of the public which buys and sells securities when Mr. Truman was nominated. This seems the more significant, because at that time so few gave Mr. Truman a strong chance of being elected.

If Mr. Truman's nomination meant nothing, no adverse stock market reaction would have been expected. If Mr. Dewey had been regarded as sure to win, then the naming of a probable loser by the Democrats would presumably have pushed the market up. The downward plunge when the President was renamed admits of only one political explanation -- that the sum total of investors gave Mr. Truman a good chance of re-election, and regarded this as undesirable from the investment viewpoint.

That conclusion is strengthened by the indeterminate market reaction to the Wallace and Thurmond candidacies. Investors seemingly drew the conclusion that neither of these, nor both together, would have a significant effect upon the outcome. That was not the contemporary opinion of political commentators.

Market analysts were inclined to hold the gloomy international picture responsible for the uncertainty of the summer quotations between the Conventions and Labor Day. Doubtless this played its part. But the appropriate observation here is that anticipation of Republican victory was not strong enough to outweigh the effects of the Berlin crisis.

The course of the market between Labor Day and Election Day -- the period of active campaigning -- is also a definite part of the picture. It shows a moderate but steady rising tendency, becoming more buoyant as all the public opinion polls concluded that election was in the bag for Mr. Dewey. This trend must be analyzed against the background of the earlier stock market movements. Apparently it meant no enthusiasm for Mr. Dewey, but a slowly rising conviction that he would win. Here market judgment was seemingly influenced by the political polls.

What happened to the stock market immediately after Mr. Truman's election was a belated reinforcement of the fears apparent when he was nominated. The slump is, of course, not an index of current business conditions, but an estimate of the future.

The thesis here tentatively advanced is that the stock market, as long as the operations of buying and selling remain unregimented, may be a far better public opinion poll than those which have now suffered so

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great a loss of confidence. Perhaps it would be still more accurate if immune from the influence of less scientific polls. Here there is a promising field for research in earlier elections.

IV

There is a very important reason for regarding the stock market as a potential political barometer, aside from those already advanced. This is the composite nature of the Dow-Jones, or any other carefully constructed, Average.

The old Literary Digest poll, defunct since 1936, was a mere counting of numerous noses. To this succeeded the sampling poll, relied upon in Hooper radio ratings and by a multitude of business surveys, in addition to those of Dr. Gallup as a pioneer sampler. Nevertheless, the sampling technique, in the last analysis, is only a refinement of the nose-counting principle.

Admittedly, only a sample of the electorate invest. But it happens to be, on the whole, both a very well-informed and thoughtful sample. And the composite judgment of this large sample is further directed to a large number of diverse securities, representing in the aggregate nearly every type of economic activity.

When this is all averaged out, the factor of collective good judgment is emphasized; that of individual bad judgment is minimized; in a way which no mere process of addition can hope to rival. In other words, the stock market as a poll is as impersonal as any device depending on individual judgments can be.

The tendency to over-simplify is an ever-present danger to democracy. It is suggested that the public opinion polls failed because they over-simplify. It is further suggested that the less arbitrary operation of any free market -- we take the stock market as an illustration -- is a better guide to what "the public" really thinks.

A thorough post-mortem on political polls is now under way. But to be helpful this autopsy must disclose the really fatal error. The thesis advanced here, by one of those who stumbled, is that any poll which tabulates conscious opinions is for that very reason likely to be misleading. If accuracy is our goal, the inaccuracy of personal judgments must be eliminated. And the only way to get an opinion without asking for an opinion is to obtain it as a by-product, through some such operation as that of the free market.

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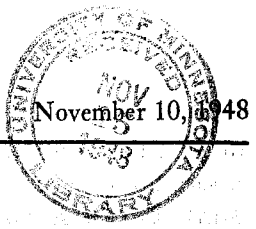
Not Merely Gossip *A Supplement to* Human Events

November 10, 1948



By Frank C. Hanighen

Harry Truman won, it is now almost universally agreed, because he carried his fight to the people in the traditional, democratic way of this Republic. It is impossible, in trying to appraise the election picture, to rule out this factor. True, the President was not wholly outspoken with his listeners. He was fighting for the brand of Socialism which his Administration and that of his predecessor had espoused. He emphasized what the State would give the people, without ever frankly saying that the State can only give what it takes from the people. But this and other considerations apart, the fact that Truman did by and large take the democratic course inspires hope for the future. In this respect, Truman's success should offer encouragement to future aspirants for the Presidency who will be men of good will -- as Washington and Lincoln were men of good will.

But there is another, less happy aspect. The fight which Truman won was achieved through our political institutions. It is just as possible that a complete demagogue could utilize this political framework to obtain power, and then to abolish our system of representative government. Hitler and Lenin exploited the freedoms of democratic regimes (the Kerensky regime, however new, was democratic) to install thorough-going dictatorships. They both (like Truman) promised the Welfare State, and the people responded to the glowing assurances. It is indisputable that Caesars have mounted their thrones by way of enticements very similar to those which Truman utilized. It could happen here.

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The Hoover Reorganization Committee will presumably render its report by the first of the year and will no doubt recommend cuts in personnel. But, in view of the New Deal election victory, hopes for any substantial reduction of the bureaucracy are fading fast. It may be said that even those within the Committee who most earnestly wanted such cuts never placed much reliance on administrative efficiency measures, alone, to solve our budgetary problems. Even if the most drastic measures for cutting and streamlining the bureaucracy were actually effected, the military appropriations would prevent the attainment of a sound budgetary policy.

A number of experts, however, have striven for certain lines of defense policy as offering hope of achieving a sound budget. The "air concept", it was believed, would check the expensive growth of the ground forces, and the stubborn appetite of the Navy. But the attempt by the latter service to maintain autonomy in the matter of the strategic air mission has blocked progress of the "air concept". This quarrel has bred a rather sharp fight in the Defense subcommittee of the Reorganization Commission. Mr. Ferdinand Eberstadt, the Chairman, has apparently taken a position favorable to the Navy in framing the final report, and the proponents of "one unified Air Force" are up in arms. Some of the latter have signified their intention of filing a dissenting opinion, if the committee as a whole favors the Eberstadt position. Within the past week, the Chairman reportedly sought to reconsider the matter, in view of this developing opposition. A meeting, with witnesses called from the Air Force and from the Navy, was projected. But the Defense Department intervened so that the meeting was put off. It is clear that the path to real unification of the services is not going to be easy.

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While the attention of people has been absorbed by the turmoil of the Presidential campaign, the country has been moving slowly but surely toward the status of an armament economy. Americans, accustomed to regard munitions manufacture as an emergency condition, absorbing money and materials only during a war, don't seem to grasp the fact that a military economy is now regarded by many people as a perma-

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nent state of affairs. Pentagon personages and prominent civilians sympathetic with them have been talking about "a plateau of continuing tension with Russia that may last for a generation". Foreign demands, apart from ECA, show signs of increasing. Present and potential demands include: a military alliance with Western Europe and lend-lease arms for the same; more arms and supplies for Greece, presumably more for Turkey, more for China and the Far East and more to bolster Latin American republics against local Communists. Before these, of course, come the requirements of the expanding home military establishment. The sum total of the demand is forcing our native industry to regard armament as its first responsibility and source of profit. With the new draft inductees moving toward the camps, the vague beginnings, at least, of the Garrison State begin to emerge.

Straws in the wind show how things are going. Early in the year (February 19) the military were awarded a law which gave them wide discretion in buying without advertising for competitive bids. That this is the way to close intimacy between the military and the industrial people they favor is proven by reports of recent meetings of military-industry organizations. On September 29, the Navy Industrial Association (Herbert Rogge of Westinghouse and Frank Folsom of RCA are respectively board chairman and president of this group) announced that "task committees" were already at work on "problems of government-industry relations". Two weeks later, on October 15, the Army Ordnance Association had a closed meeting at West Point. President J. L. Walsh of this Association revealed that civilian technical committees are actively at work with the services.

On October 26, Robert Patterson, former Secretary of War, fenced in the rest of the picture when he told the National Conference of Commercial Receivable Companies that small business is going to find the Army, Navy and Air Force "interested and co-operative" (New York Times, October 27). The armament program, said Judge Patterson, opens the way for small and medium sized business to offset possible losses of existing markets. In other words, big industry and little are provided for.

These developments have occurred with steel allocation ever hovering in the background and with the announcement that stockpiling has moved out of the paper stage into reality. As of September 20 (New York Times, September 21) the Munitions Board had already cached $700 million worth of critical materials, including cobalt, industrial diamonds, quartz crystals and tungsten and accumulation of other stores was stepping up.

Where the civilian economy fits in with all this is a question observers are beginning to ask. They are getting no answer. It looks as though we are about to see an up-to-date version of an old story: The military move into the open market, buy and contract for what they need, going on the assumption that there's so much of everything that civilians will do all right. Sooner or later the shortages come and the stage is set for rationing and controls.

It may have been anticipation of this that forced Marriner Eccles of the Federal Reserve Board to tell the Iowa Bankers Association, on October 29, that we would have to have "world peace at an early date, even at the risk of war". That is, no matter how people may talk about generation-long plateaus of continuing tension, the United States simply hasn't the wherewithal for endless and unlimited spending on military and foreign aid programs. The showdown, according to Mr. Eccles, can be postponed just so long and then a self-induced attrition sets in. That's something the architects of the Garrison State don't seem to have thought through. But it plays into the hands of governmental planners.

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There is a political deal under way in Paris which may help General de Gaulle in his plans to regain power. Informed circles in Washington emphasize its importance because there are indications that Premier Henry Queuille may not survive in the parliamentary arena when the Assembly reconvenes later this month. His rule has not been exactly brilliant and rising discontent with his handling of the coal strike may well cause a showdown in Parliament. Queuille's fall, of course, might bring just another middle-of-the-roader into power, in the usual quadrille of changing partners which has marked French politics. But the deal which is rumored could give the situation quite a different twist.

This is it: Emissaries of General de Gaulle are said to have negotiated secretly with Robert Lacoste, a Socialist, and Minister of Production in the present Government. One report claims that a conference was held in the house of Paul Reynaud. As the story goes, the General would throw his influence in Parliament behind forces working for Queuille's downfall, and his replacement by Lacoste. In return, Lacoste has promised to hold a general election before spring. De Gaulle has derived great hope from his triumph in the indirect elections for the advisory Council of the Republic, which he comes close to controlling. De Gaulle believes -- and he is not alone -- that in a general election he would emerge the victor. Lacoste is a Socialist and may be counting on the decline of his Party's strength. In case de Gaulle won, this enterprising Socialist might appear as a minister in the resultant cabinet. That is the bargain as Washington hears it. The stage is set for dramatic developments when the Assembly rolls up the curtain.

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With the Truman victory representing another step forward for American Socialism, it is interesting to note that British Socialists are developing some misgivings. The British Socialist press today is engaging in a strenuous examination of conscience. Thoughtful British Socialists obviously want to know why the system hasn't worked out as expected. In Horizon, for example, Raymond Postgate seeks to answer the question: how did Socialist thinking go astray in the 100 years since the founding of the International in 1848? The fault, he finds, lay in the fact that the principles of the Rights of Man of the 1789 Revolution were jettisoned by Marx and Engels. "As for justice", observes Postgate, "what was justice? Nobody could define it, and when a French worker named Tolain tried to make the (Socialist) International adopt it as a slogan, Marx and Engels drove him out with gross mockery." All Postgate has to suggest, without conspicuous confidence, is the founding of a reformed International.

Socialist Bernard Shaw has made a contribution to the discussion. He makes no bones about the grim realities of Socialism, as he seeks to rationalize Socialist slave labor. "I hold", he says in the Tribune, "and have always held that Socialism involves compulsory civil service as inexorably as Napoleonic Imperialism involved compulsory military service, which is the most complete slavery of body and soul at present practicable. Yet it is now a matter of course everywhere, including England under a Labour Government. The son of a millionaire has to serve as inevitably as the son of a scavenger. Without it Napoleon's 300 victories would have been impossible -- and so would those of Marshal Montgomery. The victories of Capitalism over Labour would have been equally impossible without the lash of starvation that made Labour compulsory for 90 per cent of the people. That lash has been abolished . . ." But Shaw's conclusion is just about as uncomfortable as Postgate's. "Without the democratic organization", he says, "of both these inevitable tyrannies (compulsory military and civil service), we can have Fascism but not Socialism".

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Book Events

Physics and Politics, by Walter Bagehot; Introduction by Jacques Barzun. New York: Alfred A. Knopf. $2.75. Reviewed by J. M. Lalley.

This excursion into political philosophy by an eminent Victorian, who combined in himself the somewhat anomalous qualities of a successful banker, an acute literary critic and an essayist of considerable wit, was published when the intellectual world was in its first flush of enthusiasm for the evolutionary dogmas of Spencer and Darwin. Thus Bagehot seems to have illustrated his own thesis that politics are made possible by a prevailing ethos, which serves as a sort of unformulated constitution among the members of a Society. Many of the scientific premises, such, for example, as the law of natural selection, which Bagehot made the bases of his argument, have since been invalidated or considerably modified, and his quaint association of the idea of technical superiority with that of political liberty may seem to our own generation naive. All the same, the problem of conservation and change with which Bagehot deals lies at the heart of all political philosophy; and his sharp and epigrammatic elucidation of it justifies the revival of his book.

For the vast majority of mankind, Bagehot tells us, political behavior is largely a matter of reflex action. Social discipline, like the discipline of military drill, consists of automatic responses evoked by the authority of habit. The more primitive the social organism, the stronger the power of custom, and the sterner the penalties and the greater the social disgrace which attach to departures from it. But the guilt is collective as well as personal, on the principle that every deviation from the established norms of conduct brings ill-luck or discredit upon all. Political power in such Societies is exerted not so much through physical duress as through control of the symbols which men have been habituated to revere. That is to say, men obey the laws, not because they recognize them to be good or reasonable, but wholly and simply because they are the laws. Government is therefore in the hands of a small elite, or aristocracy, who are the hereditary custodians of the laws. But the overwhelming sanction with which the laws are invested makes it difficult or even impossible to alter them without destroying the whole structure of authority, and this explains the jealous conservatism of all aristocratic Societies. It also explains, says Bagehot, their distrust of trade, because trade meant an acquaintance with the customs of alien peoples. Trade also meant prosperity and the growth of luxurious habits destructive of the military virtues on which the safety of the Society depended. This is evidently why the democratic Societies of the ancient world fell so readily prey to faction and revolution, why aristocratic Societies stagnated, and why both were sooner or later overwhelmed by some barbaric invader.

Thus for Bagehot, who, as his quotations show, was much influenced by the doctrines of Sir Henry Maine, the decisive moment in the history of civilization was the legal transition from the principle of status to that of contract. Not until then could the conflict between authority and liberty, between communal and personal interest, be reconciled. After freedom of choice became the principle of legality it was no longer necessary to repress or extirpate the fertile and original minds and the way was thus opened to the competition of ideas and to the development of the natural sciences, which gave to the dynamic nations of the West a military advantage such as the civilizations of antiquity had not possessed against their barbaric enemies. The principles of value and reason could now be applied to the conflict of customs. All this, however, would have been impossible without the instinct of social co-operation engendered by centuries of blind obedience to tribal usages and national customs. Thus we have the somewhat paradoxical moral that a long season of bondage is a necessary preparation for liberty.

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